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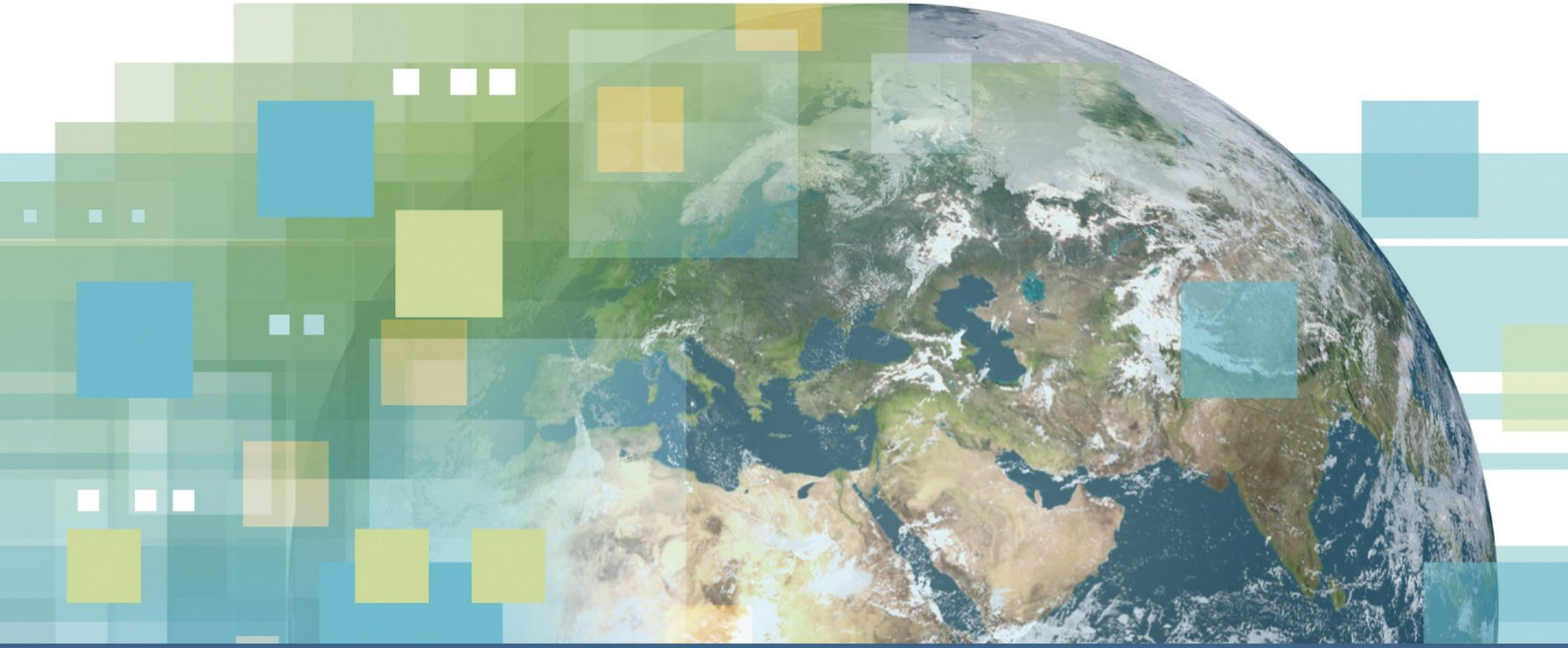

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National Contract Management Association

Strategic Sourcing in Federal Acquisition

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Date: Wednesday, April 12, 2006
Time: 1:20 p.m.

Overview of Strategic Sourcing

- What it is, and what it isn't
- The Challenges of Strategic Sourcing
- Why Strategic Sourcing Matters

Definitions: OMB Memorandum

- Strategic sourcing is the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.

Strategic Sourcing

- ✓ STRATEGIC SOURCING is a methodology to maximize the value of an organization's spending power for goods and services, relying on information about previous spending, the suppliers you are doing business with, and the number and types of procurement transactions you have.

- ✓ STRATEGIC SOURCING drives down costs on goods and services, ensures that the taxpayer gets true "market-based" prices, and empowers procurement professionals in the with enhanced capabilities in dealing with suppliers, ensuring that savings continue into the future.

- *X* STRATEGIC SOURCING IS NOT outsourcing, is not moving contracts from in-state suppliers to large national chains, is not replacing state employees and is not putting the public at any financial risk.

Characteristics of Strategic Sourcing

- Disciplined buying practices and procedures
- A fair and equitable procurement process
- Respects the multiple goals of the public procurement environment
- Puts total cost of ownership and best value in positions of primacy

Fundamental challenges in public procurement

- Governments, unlike most corporations, buy goods and services from practically every industry
- Public procurement decisions are often much more complex than simple business decisions
- Government buying is fully open to public scrutiny and input
- Public procurement has traditionally placed process above outcome
    - It is typically a very stringent, rules-bound buying environment where buying “correctly” is more important than buying “effectively”

The Buyer's Challenges

- Achieving and maintaining comprehensive understanding of the specification improvements, pricing dynamics, and other details of each industry is extremely difficult
- Often, individual government buyers are required to work with many different industries
- Detailed industry knowledge is essential in making the best buying decisions

What are the positives from the procurement perspective?

- Move professional procurement from administrative to operational role in government
  - Emergence from the back room, more visibility to customers
- Increased understanding and respect from colleagues in government
- Requires a strategic view of procurement
  - Move from requisition-to-PO to enterprise procurement planning and delivery

What are the issues or concerns for suppliers?

- You are asking suppliers to understand that the government is entering a new era of buying, and will be utilizing knowledge and leverage much more effectively to achieve best available pricing
- This can threaten suppliers who realize that they will have to be more competitive to win your business

What are the issues or concerns for buyers?

- Do we really need outsiders to tell us how to do our jobs better?
- Do they really understand what we do and why we do it this way? (What makes these folks think that they can tell us something we have not already thought of?)
- Will we be better off after this engagement than before? (Or, will we have to mend strained supplier relationships to ensure healthy competition in the future?)
- Will I be unable to get my job done during the consulting engagement with all these “experts” running around?

Can governments do this on their own?

- The experts in public procurement are the government employees who are working in the trenches every day
  - There is no substitute for the knowledge of the regulatory environment, the supplier community, and most importantly the missions of the agencies and departments that procurement serves
- Governments can, and are, doing strategic sourcing/spend management to varying degrees, but often without a framework for training, institutionalizing and sustaining the knowledge and benefits

However….

- The best case is often achieved by bringing in outside assistance to boost current practices to a new level
- Knowledge transfer is the key to sustaining benefits into the future
  - Often accomplished in 18-24 month consulting engagements
  - Industry expertise, negotiating techniques, solicitation and evaluation templates are all components of knowledge transfer

Why Change?

- Results --
  - Process Improvements – Inevitable determination that we can buy smarter
  - Dollar savings - Customers of the procurement process pay less for goods and services
  - Customer Service Benefits - Procurement professionals become trusted business advisors and partners with the agencies and departments for which they buy
  - Public Trust - The public benefits by achieving savings over historical expenditures on goods and general services, therefore the government does not have to seek new revenue to maintain levels of service

What we need to do better - Lessons Learned

- Understand, own and lead the strategic sourcing and procurement transformation process
- Engage customer procurement professionals early (agency, central)
- Engage political subdivisions to increase not only leverage, but your position of leadership within your jurisdiction
- Fully understand the missions being supported
- Rely on results, not just form
- Where change is needed, embrace it
- Communicate continuously
    - With customers and suppliers

What are the positives from the procurement point-of-view?

- Move professional procurement from administrative to operational role in government
- Emergence from the back room, more visibility to customers and to the public which has placed such great trust in you
- Increased understanding and respect from your customers and colleagues in government

Strategic Sourcing requires a strategic, long-range view of procurement, a move from

"requisition-to-PO" to enterprise procurement planning and delivery

Investments

- People
  - Culture Change
  - Training
  - Professional Growth
- Strategic Plan
- Communications
  - Marketing
  - Plans and Directions
  - Results
- Process Improvements
- Systems
- Vendors and Suppliers

Engaging Stakeholders

- Usually five sets of Stakeholders
  - Departments
  - Elected Officials
  - Media
  - Business with an interest in government contracts
  - Senior Management
- Each Stakeholder group must be approached differently
- All Stakeholders want information on:
  - What is changing
  - How it is changing
  - When it will be changing
  - How all these changes will affect them

Recent Discussions with Key Leaders in Federal Strategic Sourcing

- Pick sourcing targets realistically
- Source in waves
- Source where you have best data
- Success breeds success
- Communicate to all interested parties
  - Keep internal staff informed
- Return benefits to departments and agencies

Trends in Strategic Sourcing in Governments

- Becoming more procurement driven than driven from the outside
- Receiving positive light in government and in the public eye
- Major topic in professional circles
  - NIGP
  - NCMA
  - NASPO

Where to get questions answered…

- Colleagues in agencies that have begun this process
- NCMA
- NASPO and NIGP
- Professional publications
- Supplier community

Discussion